PanCanadian
Annual Report '76

Prologue

When someone mentions oil, gas and coal, most people think of the fuels which provide power for transportation and heat for our homes. However, petroleum, natural gas and coal are much more than fuels. They are raw materials from which an almost unlimited variety of products is manufactured. PanCanadian is a finder and producer of hydrocarbons and, although we do not manufacture any products ourselves, the raw materials that we send to the refineries and chemical plants of other companies provide many of the goods that people take for granted.

This annual report highlights a few of the products which are made from fossil fuels as a reminder that our production is more than just an energy source. The montages on the cover and in the report illustrate some of these products.

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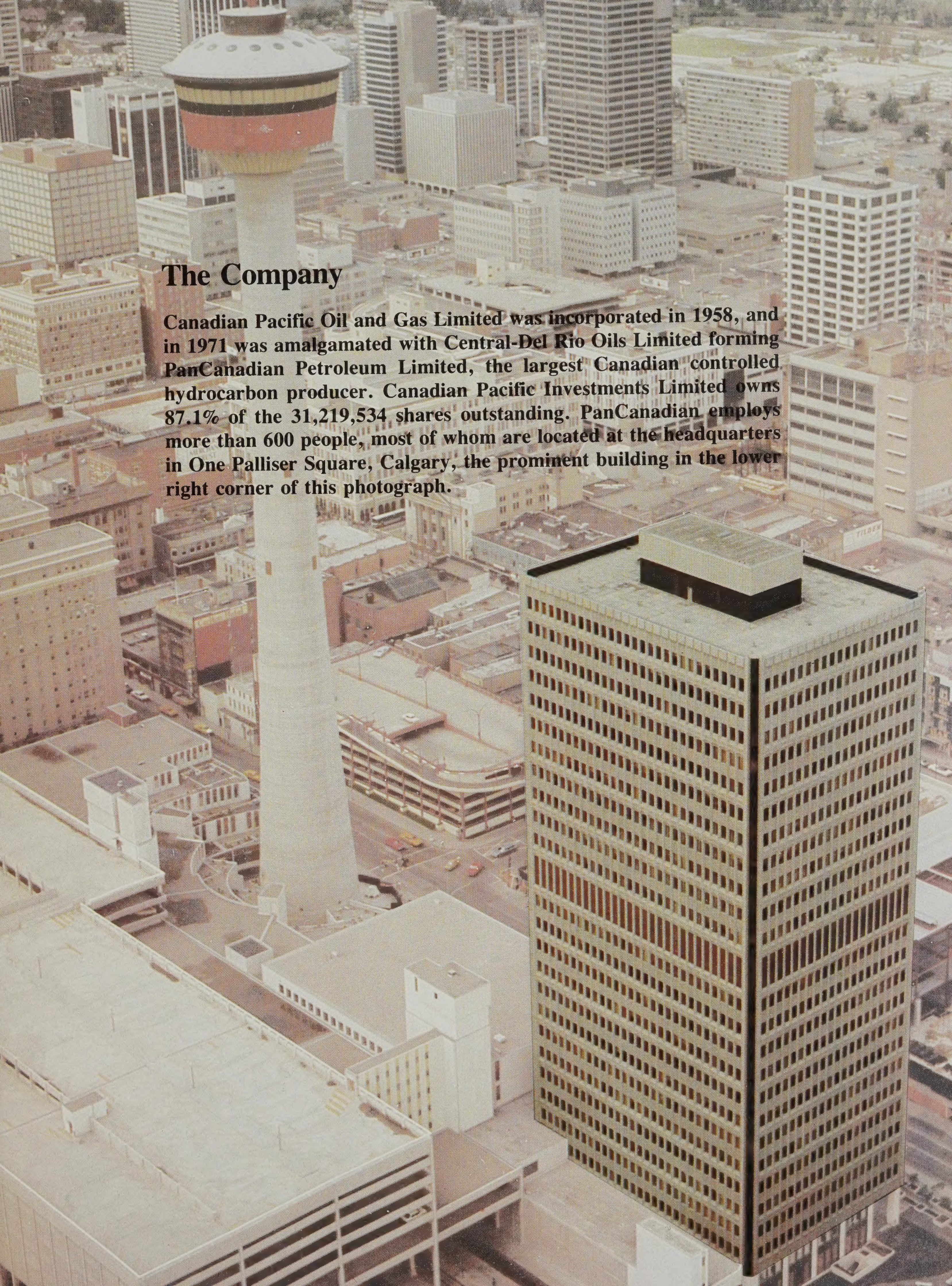
ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., Mountain Standard Time, on Thursday, April 7th, 1977. Notice of meeting, information circular and form of proxy are being mailed to each Shareholder with this report.

The Company

Canadian Pacific Oil and Gas Limited was incorporated in 1958, and in 1971 was amalgamated with Central-Del Rio Oils Limited forming PanCanadian Petroleum Limited, the largest Canadian controlled hydrocarbon producer. Canadian Pacific Investments Limited owns 87.1% of the 31,219,534 shares outstanding. PanCanadian employs more than 600 people, most of whom are located at the headquarters in One Palliser Square, Calgary, the prominent building in the lower right corner of this photograph.



Corporate

DIRECTORS

†*ALEX G. BAILEY Calgary, Alberta	— Director of Conventures Limited
*ROBERT W. CAMPBELL Calgary, Alberta	— Chairman of the Board and Chief Executive Officer of PanCanadian Petroleum Limited, Director of Canadian Pacific Investments Limited and TransCanada PipeLines Limited
ALBERT D. COHEN Winnipeg, Manitoba	— President of General Distributors of Canada Ltd.
J. K. FINLAYSON Montreal, Quebec	— Deputy Chairman and Executive Vice President of The Royal Bank of Canada
HUGH A. MARTIN Vancouver, B.C.	— President of Western Construction & Engineering Research Ltd.
WILLIAM MOODIE Montreal, Quebec	— President of Canadian Pacific Investments Limited
†*H. M. PICKARD Calgary, Alberta	— Chairman and Chief Executive Officer of Marathon Realty Company Limited
† JOHN C. ROSS Lethbridge, Alberta	— President of Milk River Cattle Company Limited
IAN D. SINCLAIR, Q.C. Montreal, Quebec	— Chairman and Chief Executive Officer of Canadian Pacific Limited
W. J. STENASON Montreal, Quebec	— Executive Vice President of Canadian Pacific Investments Limited
*J. M. TAYLOR Calgary, Alberta	— President of PanCanadian Petroleum Limited, Director of TransCanada PipeLines Limited and Director and Chairman of the Board of Panarctic Oils Ltd.
† M. M. WILLIAMS Calgary, Alberta	— President of Calgary Power Ltd.

*Member of Executive Committee
†Member of Audit Committee

OFFICERS

Robert W. Campbell
Chairman of the Board
and Chief Executive Officer

J. M. Taylor
President

B. B. Rombough
Executive Vice President

Ian D. Sinclair, Q.C.
Vice President

M. A. Rogers
Senior Vice President — Operations

C. H. Stevens
Senior Vice President — Administration

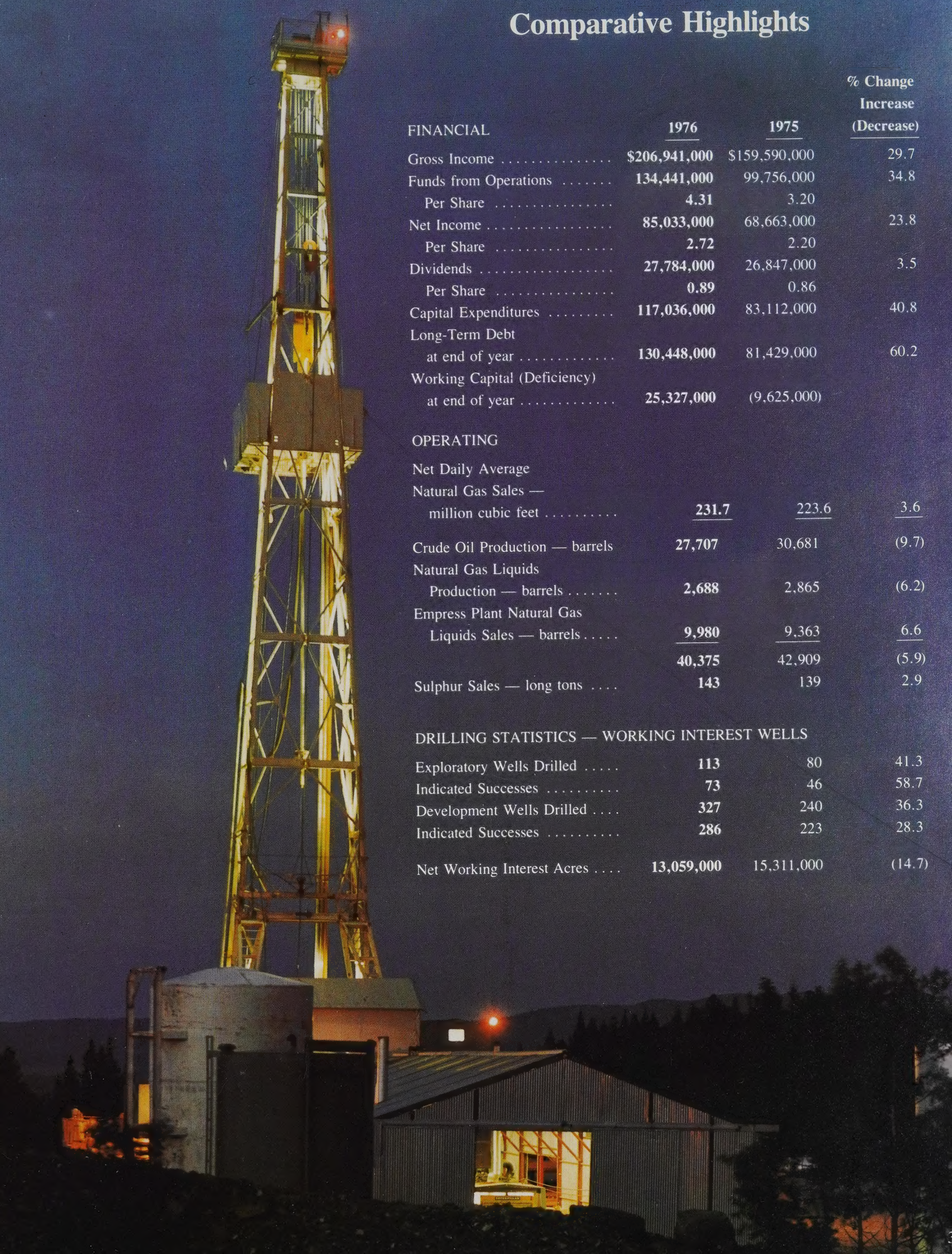
A. W. Groll
Vice President — Production

V. B. Watson
Treasurer

George E. Little
Corporate Secretary

C. Millar
Assistant Secretary

Comparative Highlights



FINANCIAL	1976	1975	% Change Increase (Decrease)
Gross Income	**$206,941,000**	$159,590,000	29.7
Funds from Operations	**134,441,000**	99,756,000	34.8
Per Share	**4.31**	3.20	
Net Income	**85,033,000**	68,663,000	23.8
Per Share	**2.72**	2.20	
Dividends	**27,784,000**	26,847,000	3.5
Per Share	**0.89**	0.86	
Capital Expenditures	**117,036,000**	83,112,000	40.8
Long-Term Debt at end of year	**130,448,000**	81,429,000	60.2
Working Capital (Deficiency) at end of year	**25,327,000**	(9,625,000)	
OPERATING			
Net Daily Average			
Natural Gas Sales — million cubic feet	**231.7**	223.6	3.6
Crude Oil Production — barrels	**27,707**	30,681	(9.7)
Natural Gas Liquids Production — barrels	**2,688**	2,865	(6.2)
Empress Plant Natural Gas Liquids Sales — barrels	**9,980**	9,363	6.6
	40,375	42,909	(5.9)
Sulphur Sales — long tons	**143**	139	2.9
DRILLING STATISTICS — WORKING INTEREST WELLS			
Exploratory Wells Drilled	**113**	80	41.3
Indicated Successes	**73**	46	58.7
Development Wells Drilled	**327**	240	36.3
Indicated Successes	**286**	223	28.3
Net Working Interest Acres	**13,059,000**	15,311,000	(14.7)

To the Shareholders

On behalf of the PanCanadian Petroleum Limited Board of Directors, it is our pleasure to present your Company's Annual Report. Once again, the past year has been one of continued financial success and we are confident that this improvement will be maintained throughout 1977.

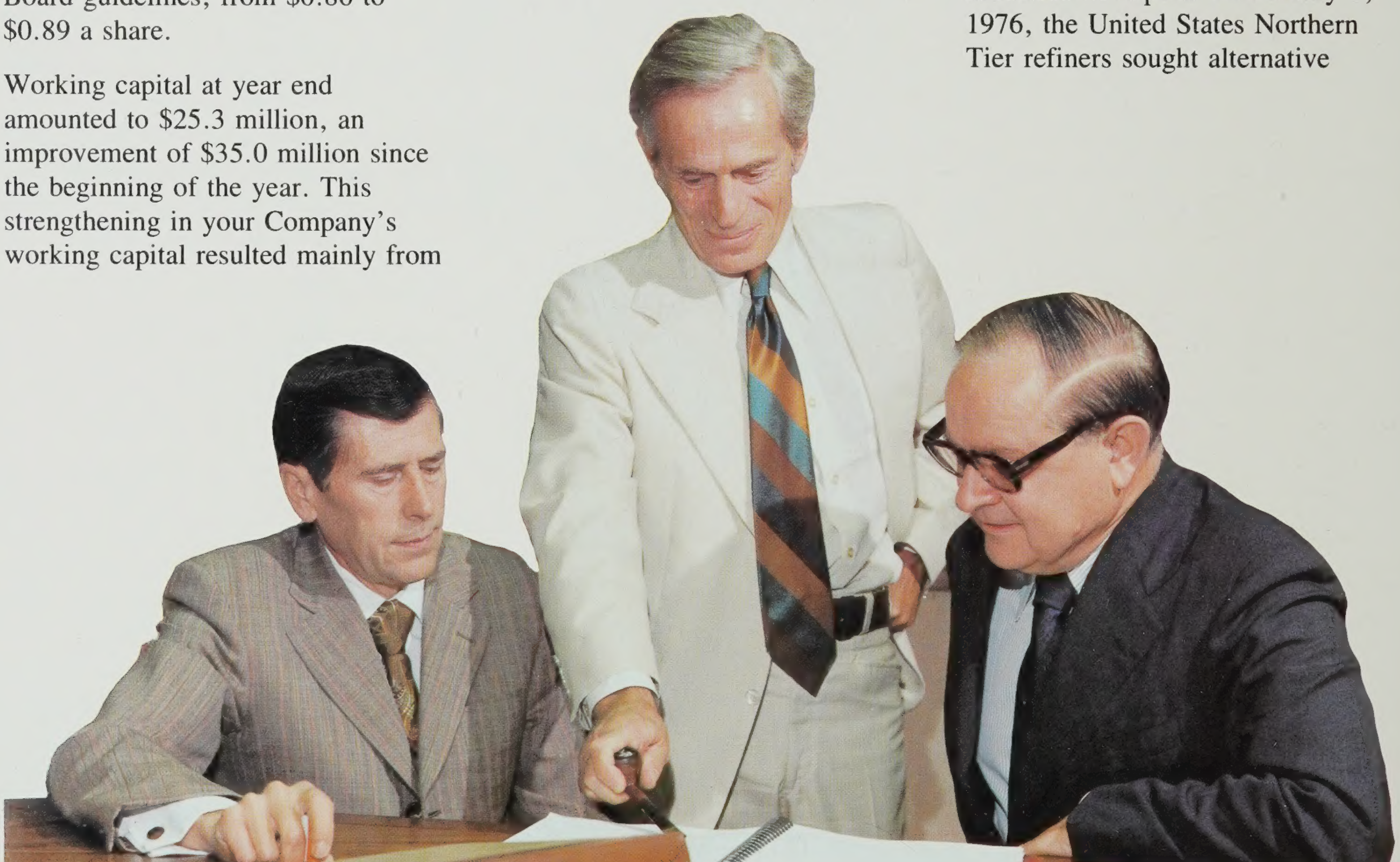
Every year since its formation, PanCanadian has recorded improved financial results. In 1976, your Company generated a gross income of $206.9 million, compared with $159.6 million in 1975. Net income improved to $85.0 million or $2.72 a share, from $68.7 million or $2.20 a share. Funds from operations increased from $99.8 million to $134.4 million, and capital expenditures, including investment in Panarctic, rose from $86.3 million to $119.9 million. Dividends were also increased, within the Anti-Inflation Board guidelines, from $0.86 to $0.89 a share.

Working capital at year end amounted to $25.3 million, an improvement of $35.0 million since the beginning of the year. This strengthening in your Company's working capital resulted mainly from the issue of $35.0 million 9¾% Debentures, due in 1983, on the Euro-Canadian dollar market late in 1976, and term bank loans totalling $24.0 million.

Higher oil and gas prices contributed significantly to PanCanadian's improved performance. Although gas production increased by 3.6%, crude oil and natural gas liquids sales declined by almost 6% from last year.

Gas production in 1976 was held back by market demand. From 1961 through 1974, domestic consumption of natural gas increased steadily at approximately 10% a year, but in the last two years it has been essentially static. Similarly, while exports expanded substantially over the years until 1972, since then there has been no increase. The combined effect of a small growth in total demand with a marked increase in supply, produced by the vigorous exploration and development program mounted by industry over the past two years, has now produced a surplus. While the authorization of temporary additional exports would be a satisfactory short term solution, it is essential that a vigorous expansion of the Eastern Canadian gas market be undertaken to maintain the momentum of exploration in Western Canada. As pipelines are currently operating at full capacity, such an expansion will require an organized development of the major gas transmission systems to handle the increased volumes. Because of the present gas surplus, forecasts of your Company's 1977 gas sales are difficult to make, but we anticipate increased production.

Crude oil production declined primarily because of the marketing problems of heavy and medium crude oil. This type of crude represents a considerable portion of your Company's oil production. As a result of Canada's announced plan to phase out all oil exports to the United States by 1981, and the resulting reduction in exports on January 1, 1976, the United States Northern Tier refiners sought alternative



Left to right: B. B. Rombough, J. M. Taylor, Robert W. Campbell.

sources of crude oil. Traditionally, Canadian heavy and medium crudes have supplied these refineries and during the first three months of 1976, PanCanadian's oil production was down from the previous year. Even though the United States refiners gradually returned to using Canadian oil, the loss of production early in the year could not be made up. After receiving submissions from your Company and other producers, the National Energy Board now permits exports of up to 135,000 barrels a day of heavy and medium crude oil. This authorized export level is an interim measure until the National Energy Board issues its findings in the spring of 1977. Hopefully this will assist in providing stability in the heavy and medium oil markets but we are still concerned about the long term potential for heavy oil sales. As part of this concern, we believe that the Canadian authorities should place conditions on the approval of any pipeline crossing Canada, which will carry Alaskan or other foreign crude oil to the United States. It must be guaranteed that the Canadian heavy and medium oil historically imported by the United States will not be shut out, as long as it is surplus to Canadian needs and competitively priced.

As a result of Federal-Provincial negotiations, the price of Canadian heavy crude oil was increased by $0.70 a barrel during 1976. At the same time, the light crude oil price was increased by $1.05 a barrel, and the average crude oil price was raised by a further $0.70 a barrel on January 1, 1977. PanCanadian heavy and light crude wellhead prices are now approximately $8.59 and $9.36 respectively. The average price of natural gas sold by PanCanadian increased from $0.56 in 1975 to $0.99 a thousand cubic feet in 1976 and it is estimated that a further increase introduced on January 1, 1977 will provide the Company with an average price of $1.18 a thousand cubic feet.

Since the oil supply crisis in the fall of 1973, consuming industries have begun to treat energy conservation seriously. The near zero growth in recent domestic gas sales may signal the first fruits of conservation. It must be apparent to everyone by now that there is a shortage of cheap energy. To sell oil and natural gas at less than their replacement costs encourages waste, while at the same time discourages exploration for new supplies. Initial government measures aimed towards conservation have been generally ineffective and even counter productive. Recent experience suggests that commodity pricing is the most successful method of promoting conservation, and therefore the Federal Government must allow energy prices to float to world levels more rapidly. The special needs of particular groups requiring protection can be accommodated by various measures, without discouraging conservation.

Your Company continued its exploration program with total expenditures amounting to $59.9 million compared to $34.1 million in 1975. Considerable success was achieved in Southern Alberta, and new gas reserves were discovered in areas including Entice, Strathmore, Redland, Carseland and Crowfoot. Oil was found in the Bantry, Alderson and Long Coulee areas and additional drilling to delineate these new reserves will be conducted in 1977. A successful gas exploration program continued in the Provost and Killam areas of Central Alberta. Further drilling was conducted in the Foothills and at year end five wells were underway. To ensure future supplies of hydrocarbons, your Company is participating in a pilot project to produce oil from the Cold Lake tar sands and is continuing exploration to delineate its coal reserves.

In the United States, an oil discovery was made in Mississippi, and your Company participated in the Gulf of Alaska and East Coast Outer Continental Shelf lease sales, acquiring interests in five blocks.

Panarctic Oils Ltd. had another successful year. A gas discovery was made at Jackson Bay off Ellef Ringnes Island, and two wells at Bent Horn on Cameron Island produced oil at high rates. Studies to determine the economic feasibility of producing this oil are being conducted. Late in the year it was announced that Panarctic will act as operator of a four company, $80 million exploration program which is expected to take four years to complete.

A number of senior executive appointments were made during the year as part of a reorganization of management responsibilities. Mr. B. B. Rombough joined the Company in July as Executive Vice President, with Mr. M. A. Rogers being appointed Senior Vice President — Operations and Mr. C. H. Stevens becoming Senior Vice President — Administration.

On behalf of the Board of Directors, we wish to thank our staff for a job well done.

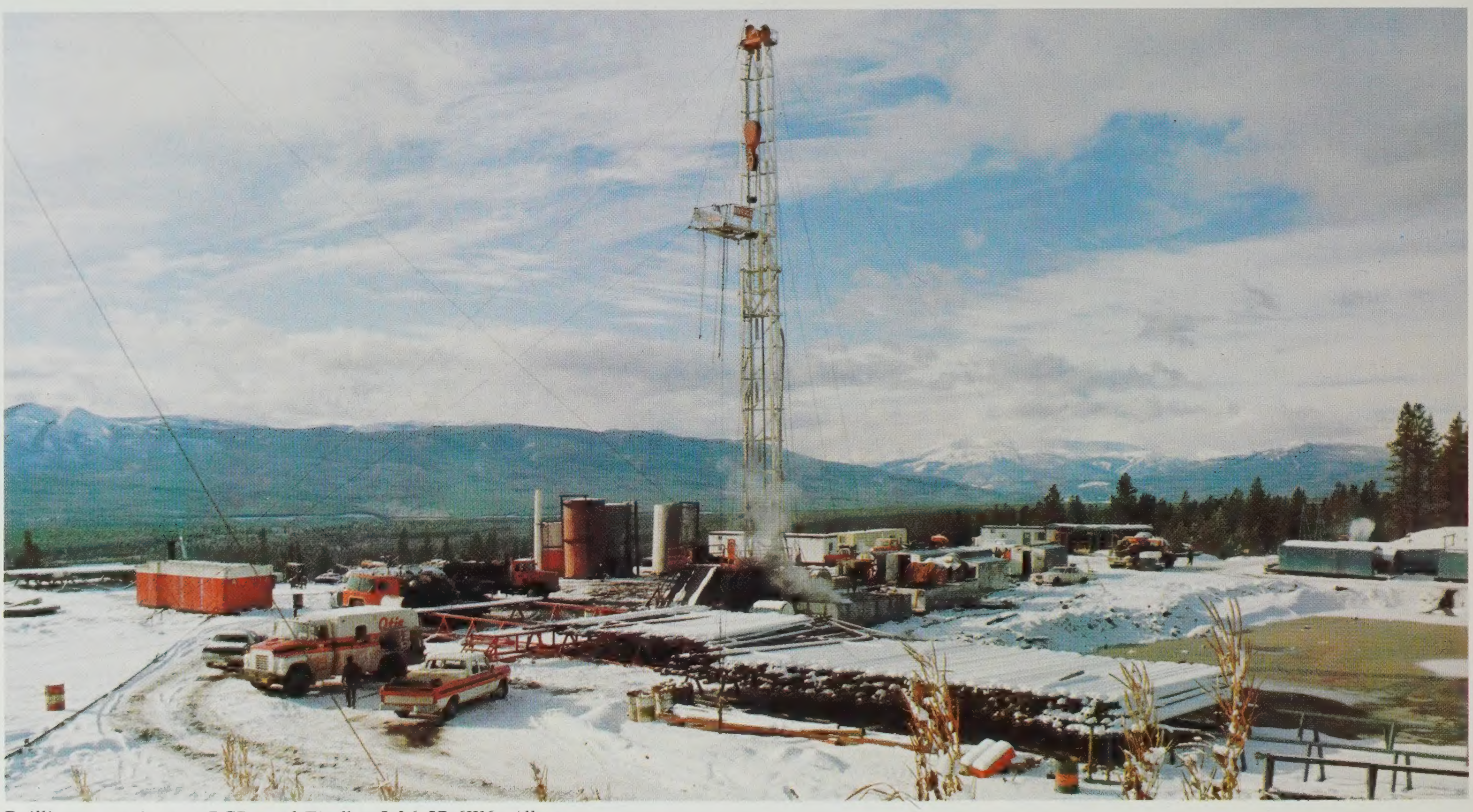
Robert W. Campbell

Robert W. Campbell
Chairman of the Board and
Chief Executive Officer

J. M. Taylor

J. M. Taylor
President

Calgary, Alberta
March 9, 1977



Drilling operations at PCP et al Findley 5-26-57-6W6, Alberta.

OPERATIONS

During 1976, capital expenditures by the Exploration and Production Divisions totalled $117.0 million and of this, $94.0 million was spent in Canada. Investment in all exploratory ventures excluding Panarctic Oils Ltd. was $57.0 million, and development drilling, production facilities and other equipment cost $60.0 million.

There were 981 wells drilled on lands in which PanCanadian has an interest. This comprises 317 exploratory and 664 development wells. A total of 964 of these wells were drilled in Canada, which represents 18% of all wells drilled in the nation. This program resulted in 96 oil wells, 706 gas wells and 30 facility wells. The Company operated 234 Canadian wells and continued to be one of the country's most active operators.

Exploration

In 1976, PanCanadian's exploration programs totalled $59.9 million which compares with $34.1 million in 1975.

Land acquisition and retention expenditures nearly tripled compared to 1975, and reached $19.7 million. Exploratory drilling costs were almost double the 1975 figure at $23.8 million and geological, geophysical and overhead expenditures totalled $13.5 million. A further $2.9 million was invested in Panarctic Oils Ltd. bringing PanCanadian's total participation in this venture to $16.2 million.

At December 31, 1976, PanCanadian's working interest land holdings totalled 13.1 million net acres of petroleum and natural gas rights and, of this, 73% was located in Canada. This compares with 15.3 million net acres in 1975 and the reduction is primarily the result of the Company relinquishing less-prospective acreage in the frontier areas. PanCanadian also held royalty interests in 4.2 million acres. These figures do not include PanCanadian's interest in Panarctic Oils Ltd. through which the Company is represented in a further 77.8 million gross acres. Important land acquisitions include 53,000 net acres in the Alberta Foothills, 9,000 net acres in northeastern British Columbia, and interests ranging from 3.5 to 10 per cent, in five offshore blocks in the United States Outer Continental Shelf.

Of the 981 wells that were drilled on lands in which PanCanadian has an interest, 317 were exploratory tests. This extensive exploration program resulted in 14 indicated oil wells and 205 potential gas wells.

A large number of exploratory wells were drilled in PanCanadian's traditional exploration area of Southern Alberta and the 21 tests in the Entice, Strathmore, Redland, Carseland and Crowfoot areas resulted in 16 gas wells and one dual gas and oil well. Many of the gas wells are multiple zone discoveries and are capable of producing between one and three million cubic feet of natural gas a day.

Although Southern Alberta is primarily a gas prone area, encouraging oil accumulations were discovered at Bantry, Long Coulee, and Alderson. Further north, in the Central Plains, extensive drilling in the Provost and Killam areas resulted in 31 exploratory gas completions.

In the Rocky Mountain Foothills, three wells were drilled to total depth resulting in one indicated gas well, one suspension and one abandonment. Five more wells had been commenced by year end. In the Findley area, where a significant gas discovery was made last year, a second gas well was drilled and was being completed at year end. Operations were commenced at two step-out wells with further wells planned for 1977. In the Morley-Ghost area west of Calgary, one well was suspended because of mechanical difficulties and one was abandoned. A further well is scheduled for the Ghost area in 1977. At the end of 1976, wildcats were also being drilled in the Antler Creek, Benjamin Creek and Narraway areas of the Foothills.

As a member of the Delta 5 Group, PanCanadian has participated in a three well exploration program in the Mackenzie Delta, and has earned an interest in 187,000 gross acres.

Late in 1976, British Columbia raised the price paid to gas producers and this has improved the economic outlook for exploration in that province. This will lead to increased exploration activity and PanCanadian plans to conduct further work in Northeastern B.C. at Helmet, Fireweed, Kimea, Elm and Evergreen. The Company participated in two successful gas wells at Helmet during 1976.

PanCanadian is participating in the exploration of the Smackover trend in the Southeastern United States with interests of up to 50% in various projects. A Haynesville zone oil discovery at the Rogers Unit well in Scott County, Mississippi, has already been placed on production at approximately 300 barrels a day. An additional Smackover wildcat, Laurel Unit 9-15, was drilling in Jones County, Mississippi at year end and initial results are encouraging.

In Fremont County, Wyoming, PanCanadian Fuller Reservoir Unit II #22-25 was tested and completed as a potential Lower Fort Union gas well. A step-out to the discovery will be drilled in 1977.

The Company is the operator of a group with four U.S. partners to explore in the Overthrust Belt of the Rocky Mountain States. This area has geological similarities to the complex Rocky Mountain Foothills of Alberta and is currently one of the most active exploration areas in the United States, following a number of condensate-rich gas discoveries.

Working Interest Holdings in Petroleum and Natural Gas Rights

	At December 31, 1976		At December 31, 1975	
	Gross Acres	**Net Acres**	**Gross Acres**	**Net Acres**
CANADA				
Alberta	**8,083,777**	**6,296,914**	7,981,373	6,292,080
Arctic Islands*	**994,028**	**109,343**	994,028	109,343
British Columbia	**528,624**	**316,184**	492,545	307,259
East Coast Offshore	—	—	2,229,066	139,700
Manitoba	**269,720**	**269,720**	267,443	267,443
New Brunswick	**178,050**	**48,958**	3,368,338	1,006,001
N.W.T. and Yukon	**2,739,688**	**1,736,582**	4,588,950	3,108,132
Quebec	**1,053,076**	**129,217**	1,053,076	129,217
Saskatchewan	**686,769**	**663,317**	687,374	663,816
	14,533,732	**9,570,235**	21,662,193	12,022,991
INTERNATIONAL				
Greenland	**779,369**	**233,288**	779,369	233,288
Indonesia	**11,211,115**	**2,123,174**	5,278,410	1,979,404
Iran	**1,797,442**	**359,488**	1,797,442	359,488
Italy	—	—	42,099	14,033
North Sea (Dutch)	**207,503**	**10,375**	207,882	10,394
North Sea (U.K.)	**194,027**	**14,079**	255,794	15,623
United States	**1,533,185**	**748,051**	1,769,380	675,410
	15,722,641	**3,488,455**	10,130,376	3,287,640
TOTAL	**30,256,373**	**13,058,690**	31,792,569	15,310,631

Non-working interest acreage under lease or sub-lease, reserving to PanCanadian, or its subsidiaries, royalties or overriding royalties 4,225,146

*Does not include PanCanadian's interest in Panarctic Oils Limited.

DRILLING STATISTICS

	1976						1975	
	Oil	Gas	Dry	Facility	Total	Footage	Total	Footage
CANADA								
Exploratory								
Working Interest	4	67	29		100	433,772	70	291,233
Royalty Interest	9	137	56		202	671,366	112	436,670
Development								
Working Interest	44	241	18	22	325	784,921	237	551,496
Royalty Interest	39	261	29	8	337	833,072	236	569,762
	96	706	132	30	964	2,723,131	655	1,849,161
UNITED STATES								
Exploratory								
Working Interest	1	1	7		9	103,453	7	69,395
Royalty Interest			2		2	18,802	4	27,814
Development								
Working Interest		1	1		2	12,251	3	31,972
Royalty Interest							1	13,500
	1	2	10		13	134,506	15	142,681
INTERNATIONAL								
Exploratory								
Working Interest			4		4	29,517	3	21,414
TOTAL	97	708	146	30	981	2,887,154	673	2,013,256

Preparations are being made to drill wildcats on PanCanadian's acreage in the Northern Gulf of Alaska and offshore California.

Further studies were conducted on the Company's concessions in Greenland. Two wells are planned for 1977 on Concession 32, and more seismic will be conducted on Concession 26. The three well drilling program on the Lar Block in southwestern Iran has been completed, resulting in three abandonments. This has fulfilled our work commitments on the block and the operation is being terminated.

The Company participated in a wildcat in the Indonesian Java Sea which was drilled and abandoned.

PanCanadian continued its coal exploration program, participating in the drilling of 162,000 feet of shallow test holes in the Medicine Hat, Standard, East Coulee, Brooks and Edmonton areas of Alberta. As a result of these programs, the Company's estimate of its proven and probable reserves of subbituminous coal increased to a total of 860 million tons at year end. This compares with 485 million tons at the end of 1975 and comprises 700 million tons of surface recoverable reserves and 160 million tons of underground recoverable reserves. Exploratory drilling will be continued in 1977.

Panarctic Oils Ltd.

Panarctic drilled nine wells during 1976 and two were underway at year end. Gas was encountered at Jackson Bay off Ellef Ringnes Island, and two wells have tested oil at high rates at Bent Horn on Cameron Island. Further wildcats and step-out wells will be drilled at Bent Horn to determine the potential of this oil field. Panarctic has announced that it will operate a four company, $80 million exploration program on a 33 million acre farmin. This program will take four years to complete.

At year end, PanCanadian had a 9.13% interest in Panarctic and a cumulative investment of $16.2 million. Panarctic has recently accepted the offer of a Canadian oil company to purchase, from treasury, a 5.5% interest in the company for $30.5 million.

Production

PanCanadian's net gas sales averaged 231.7 million cubic feet a day compared to 223.6 million cubic feet a day in 1975. This increase was the result of new production from wells tied in, and facilities completed in 1975 and 1976. Net oil production averaged 27,707 barrels a day compared to 30,681 barrels a day in 1975. The decline was largely because of reduced sales of heavy oil in the early part of the year. Sales volume of natural gas liquids averaged 2,688 barrels a day from production compared with 2,865 barrels a day in the previous year. Production of sulphur during the year averaged 211 long tons a day compared to 230 tons a day in 1975.

The Company participated in 664 development wells of which 327 were working interest ventures. Of the total, 83 were oil wells, 503 were gas wells, 30 were facility wells and 48 were abandonments. Total Company expenditures on development drilling amounted to $14.9 million.

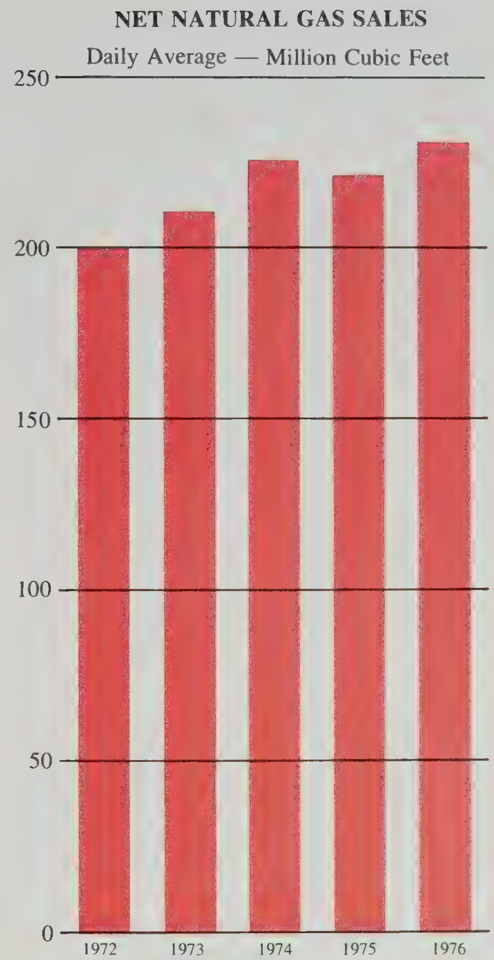
The total expenditure on production facilities and equipment, excluding the Brooks Ammonia Project, was $29.8 million. Most of this was spent to place gas wells on production at 25 different areas in Alberta and two areas in British Columbia. Waterflood facilities were installed in two oil pools in Alberta.

Natural Gas

As a result of a pricing agreement between the Federal and Alberta Governments in December 1975, the average price for gas sold by PanCanadian in 1976 increased to $0.99 from $0.56 a thousand cubic feet. A further price increase became effective January 1, 1977 and it is estimated that this will increase PanCanadian's gas price to $1.18 a thousand cubic feet.

New wells tied in during the year in Alberta and British Columbia have a net production capability of 50 million cubic feet a day. Because most of these wells were placed on production in the latter part of the year, they have provided only a modest increase in the 1976 average daily production.

Natural gas is utilized in industrial, commercial and residential heating in Canada and the United States. Besides being used as a fuel, it is a raw material in the manufacture of fertilizers and petrochemicals.



Oil production in the Weyburn Field, Saskatchewan

NET NATURAL GAS SALES

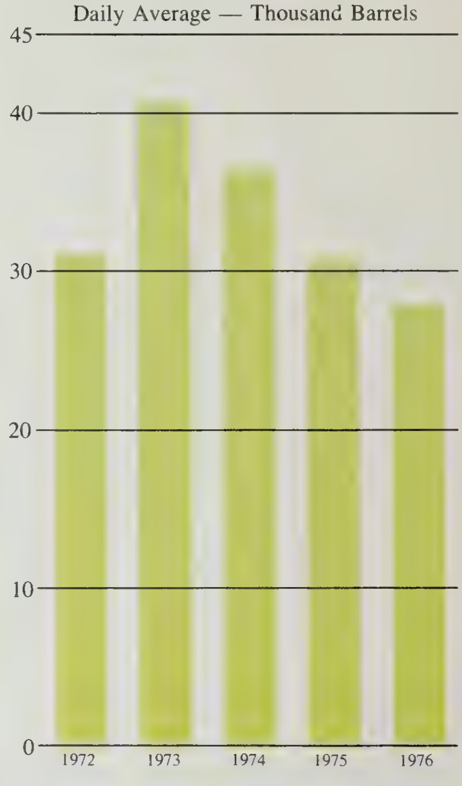
Daily Average — Million Cubic Feet	1976	1975
ALBERTA		
Jumping Pound	**19.6**	22.3
Alderson	**18.6**	25.7
Countess	**16.6**	16.4
Calgary	**13.0**	14.3
Redland	**10.4**	9.6
Bantry	**10.2**	7.3
Westerose	**9.9**	10.0
Princess	**7.7**	1.6
Hussar	**6.6**	8.9
Rosebud	**6.1**	4.5
Wayne	**5.9**	7.1
Ferrybank	**4.9**	6.0
Gilby	**4.9**	4.4
Wintering Hills	**4.9**	6.5
Verger	**4.4**	3.0
Lake Newell	**4.3**	2.1
Castor	**4.2**	0.7
Lathom	**4.2**	3.1
Viking Kinsella	**3.7**	2.2
Patricia	**2.8**	0.9
Nevis	**2.7**	2.7
Homeglen Rimbey	**2.5**	2.4
Other	**58.4**	57.6
	226.5	219.3
BRITISH COLUMBIA	**1.4**	—
UNITED STATES	**3.8**	4.3
	231.7	223.6

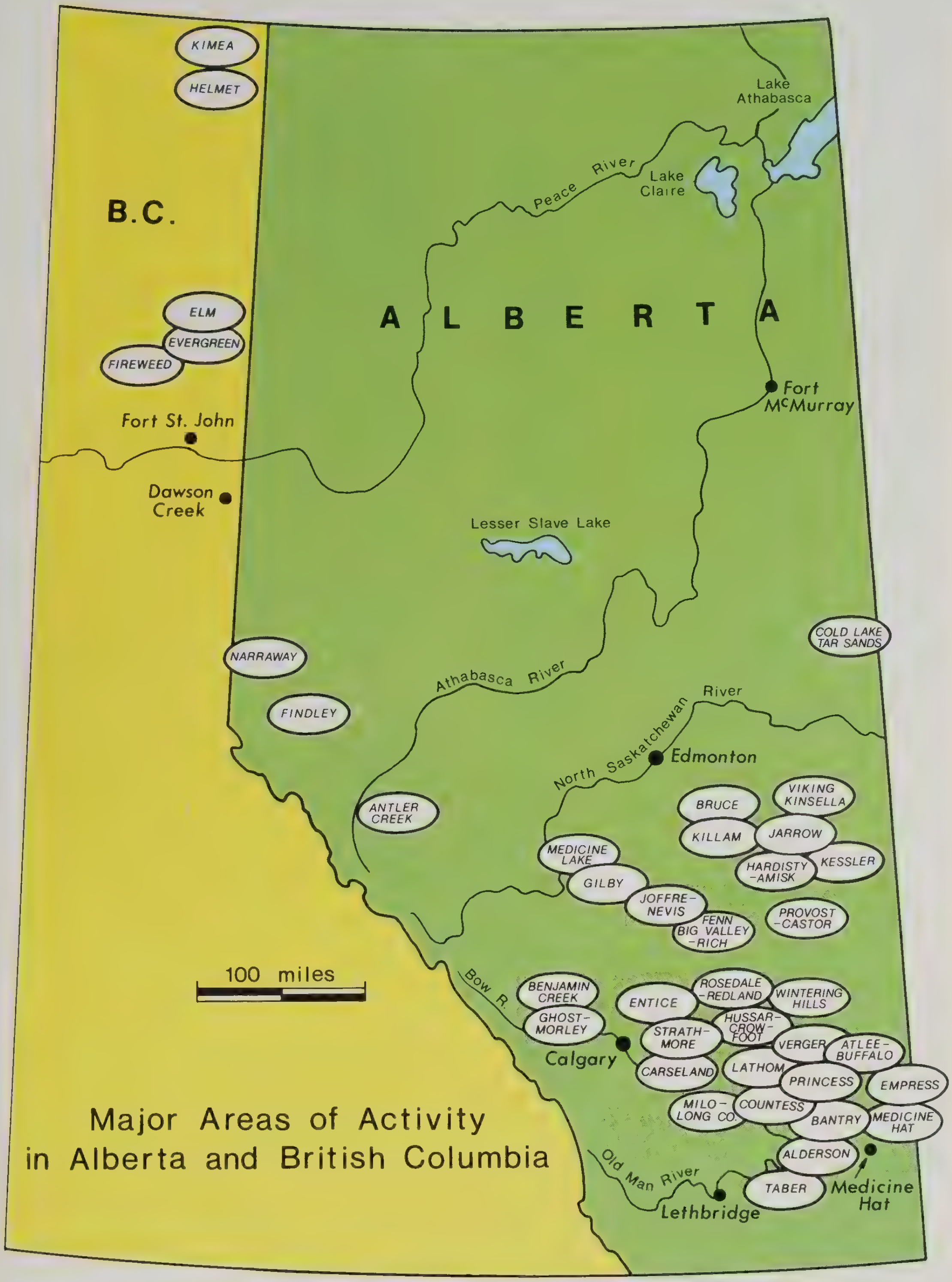
Crude Oil

Prices for Canadian crude oil were raised by \$1.05 a barrel for light oil, and \$0.70 a barrel for heavy and sour medium oil during 1976, as a result of Federal-Provincial negotiations. A further increase of \$0.70 a barrel was implemented on January 1, 1977. This is part of the Canadian policy to bring domestic oil prices gradually towards those of the international market.

The decline in PanCanadian's net oil production was largely caused by uncertainty in the United States market. The Canadian government plans to phase out all oil exports by 1981, and therefore the National Energy Board periodically reduces the level of exports. The reduction on January 1, 1976 was implemented before United States authorities and refiners had worked out a suitable allocation system between the refineries. This led to the shutdown of much of PanCanadian's heavy oil production in the first quarter of 1976.

NET CRUDE OIL PRODUCTION
Daily Average — Thousand Barrels





NET CRUDE OIL PRODUCTION

Daily Average — Barrels	1976	1975
ALBERTA		
Countess	**6,600**	7,914
Wizard Lake	**2,174**	2,721
Lathom	**1,831**	1,779
Fenn Big Valley	**1,276**	1,423
Westerose	**808**	1,073
Bonnie Glen	**801**	1,022
Taber	**752**	1,050
Bantry	**728**	843
Pembina	**535**	633
Horsefly	**532**	584
Gilby	**506**	510
Hussar	**471**	482
Provost	**457**	482
Kinsella	**377**	29
Bellshill Lake	**327**	401
Medicine River	**314**	302
Redwater	**296**	330
Parflesh	**291**	328
Leduc	**273**	328
Joarcam	**221**	273
Alderson	**216**	249
Other	**2,539**	2,647
	22,325	25,403
SASKATCHEWAN		
Weyburn	**3,237**	3,246
Flat Lake	**630**	665
Handsworth	**280**	298
Lake Alma	**257**	186
Other	**656**	703
	5,060	5,098
BRITISH COLUMBIA	**3**	4
MANITOBA	**63**	71
UNITED STATES	**256**	105
	27,707	30,681

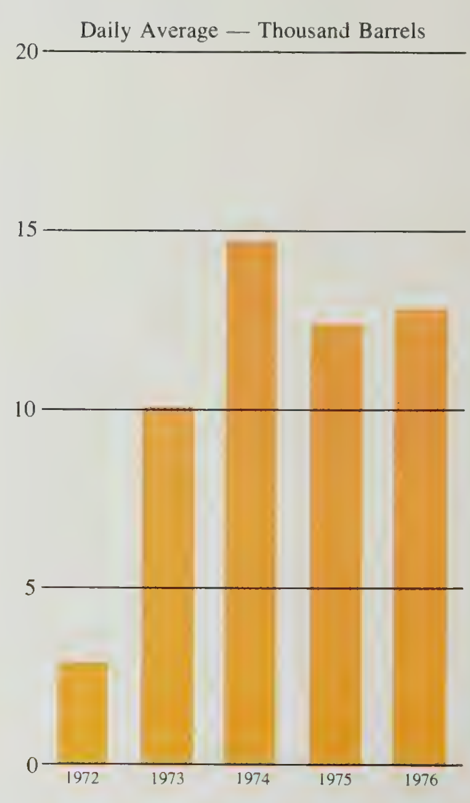
As over half of PanCanadian's oil production is heavy and medium crude, the Company made a submission before the National Energy Board to demonstrate that the market for heavy and medium oil is not the same as that for light crudes, and should be covered by different export regulations. The efforts of PanCanadian and certain other producers facing the same problem, with support from the Alberta and Saskatchewan Governments, have been successful. The National Energy Board has now allowed continued exports of up to 135,000 barrels of heavy and medium oil a day, as an interim measure until its findings are announced in the spring of 1977. Although some Canadian heavy and medium oil is refined in Canada, the bulk of this feedstock has traditionally been exported to a small number of refineries in the Northern United States. Western Canadian oil has flowed to Montreal since the mid-1976 opening of the Sarnia-Montreal crude oil pipeline, but the total Canadian demand for heavy and medium oil is still much lower than the producibility. Hopefully, some substantial level of heavy and medium oil exports will be continued and a formula for forecasting future export levels will be adopted.

Because your Company reports net after-royalties, rather than gross production, the level of reported production is reduced substantially by the new Saskatchewan royalty system effective November 1, 1976. Since 1974, Saskatchewan has been levying a surcharge on oil produced in addition to the Crown royalty. It has been PanCanadian's practice to report the surcharge as a deduction from revenue rather than from production. The new royalty system eliminates the surcharge but raises the Crown royalty to a level approximately equal to the former sum of surcharge and royalty. The effect is that although PanCanadian's gross production does not change and net revenue from Saskatchewan changes only slightly, the reported production for PanCanadian after royalty is reduced by over 2,000 barrels a day. Since this change did not occur until November 1, 1976, it makes a small change in the Company's 1976 production but will make a significant reduction in the 1977 figures.

New wells tied in at Kinsella and Joffre, and new waterflood facilities at the Kinsella and Countess "O" Pools, have added about 1,200 barrels a day of new oil production capability.

The Company's crude oil is sold to refineries in Canada and the United States. The light oil is used to produce gasoline, other fuels and a number of raw materials from which a vast range of consumer and industrial goods is manufactured. The heavy oil is used to produce heavy fuel oils, greases and asphalt for roads and roofing.

NET NATURAL GAS LIQUIDS SALES



Natural Gas Liquids

Revenue generated from 4.6 million barrels of natural gas liquids sales amounted to $39.1 million, an increase of 11% over 1975. This improvement was achieved in spite of generally soft conditions in the wholesale natural gas liquids market. At year-end, inventory was 953,000 barrels compared with 688,000 barrels at the end of 1975.

Natural gas liquids are marketed by PanCanadian Gas Products Ltd. and through joint ventures in the wholesale and industrial markets in Canada and the United States. Commencing in September 1977, all marketing activity will be conducted directly by PanCanadian Gas Products Ltd.

Negotiations to sell ethane to the ethylene plant under construction at Red Deer, Alberta continued throughout 1976, and are expected to be completed by mid-1977. Ethane deliveries to these facilities will commence in late 1978 or early 1979, and will be supplied from facilities at Empress.

The major uses of natural gas liquids are as fuels and petrochemical feedstocks where they become the basic raw materials of the plastics industry.

NET NATURAL GAS LIQUIDS SALES

Daily Average — Barrels	1976	1975
ALBERTA		
Empress Plant	**9,980**	9,363
Westerose	**765**	809
Jumping Pound	**462**	513
Calgary	**314**	325
Other	**1,120**	1,196
	12,641	12,206
UNITED STATES	**27**	22
	12,668	12,228

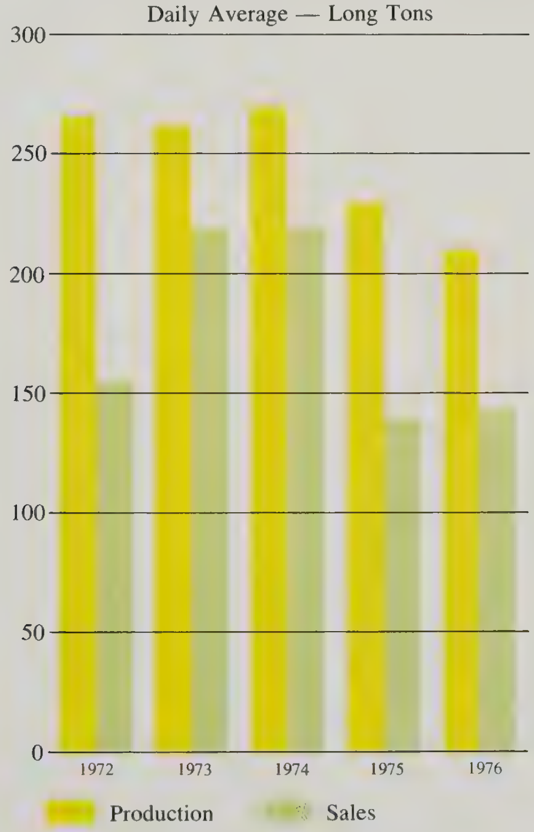
Sulphur

Company sales in 1976 were $0.9 million compared to $1.1 million in 1975, an 18% decrease. The sales volume in 1976 averaged 143 long tons a day at an average price of $17.41 a ton. This compares with an average of 139 tons a day in 1975 at an average selling price of $21.91 a ton. Significantly depressed world wide market conditions caused the decrease in the average selling price. Inventory at year end was 231,000 tons compared with 206,000 tons at the end of 1975. PanCanadian's first significant sales to the North American market were made during 1976, and it is anticipated that this market will be further penetrated in 1977.

Sulphur is used in the manufacture of fertilizers, explosives, and in the pulp and paper industry.

NET SULPHUR PRODUCTION AND SALES

Daily Average — Long Tons

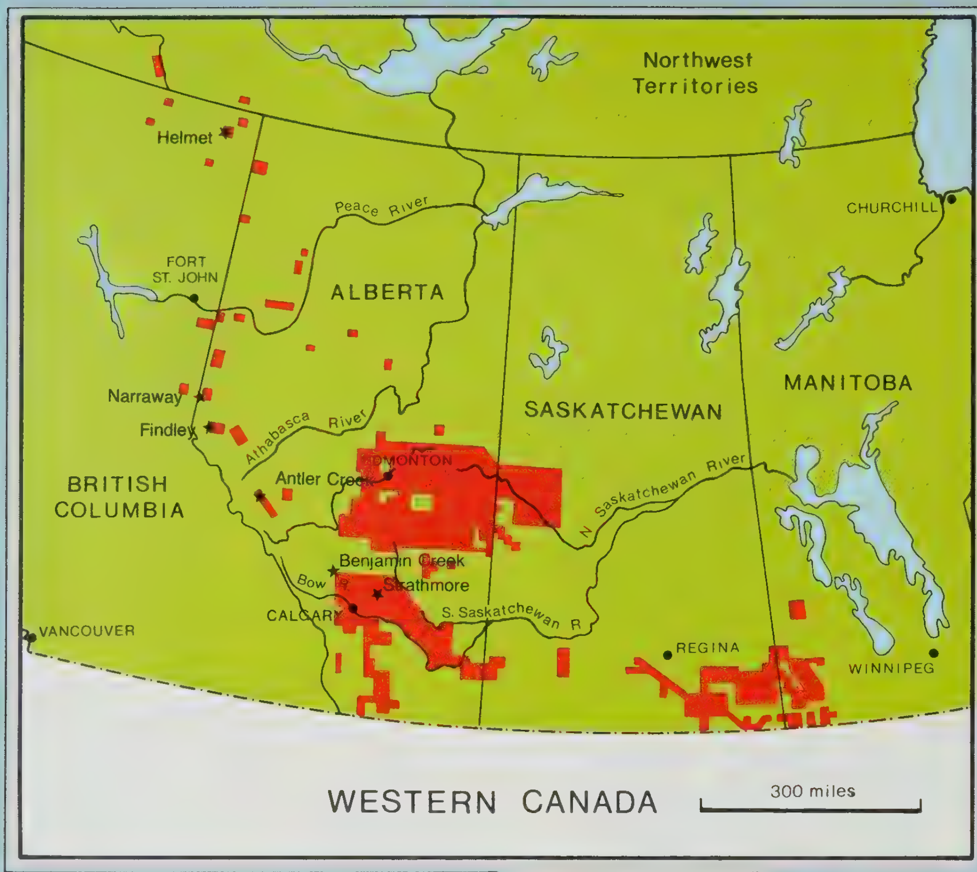


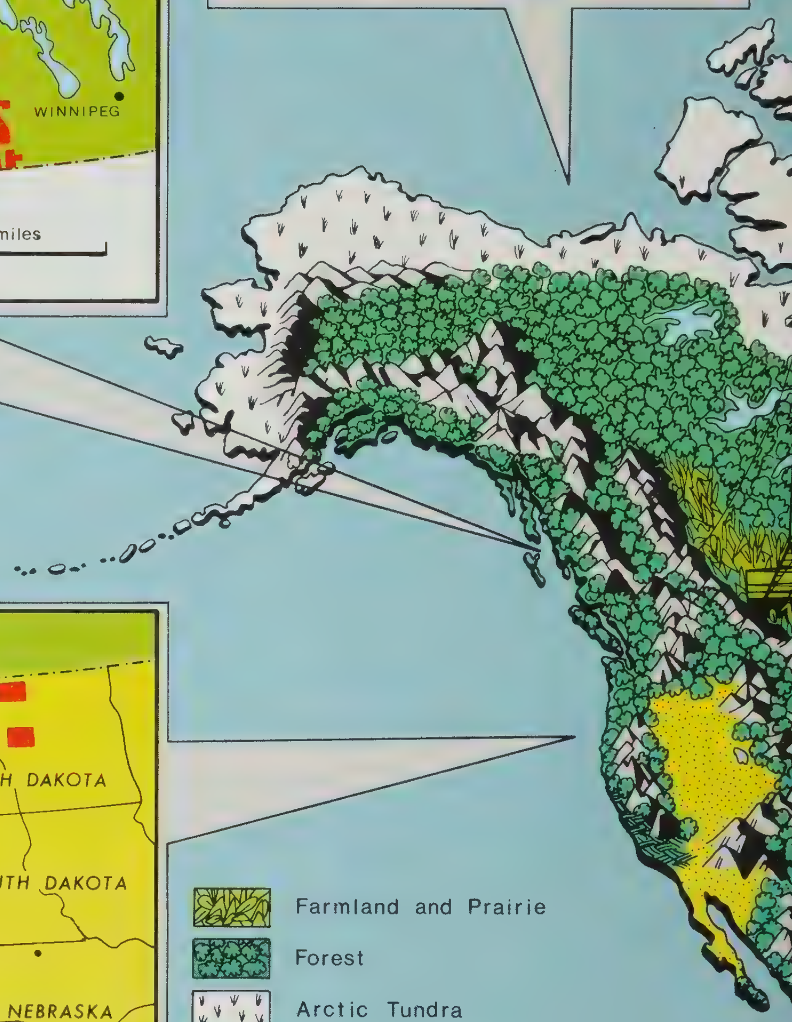
NET SULPHUR PRODUCTION

Daily Average — Long Tons	1976	1975
ALBERTA		
Calgary	**79**	91
Jumping Pound	**60**	67
East Crossfield	**54**	53
Other	**18**	19
	211	230

Brooks Ammonia Project

Equipment and design costs to year end were $42.0 million and $8.0 million of this was amortized in 1976. However, because of the adverse conditions which developed in the United States ammonia market, management decided to defer on-site construction. The Company's future course of action will depend on the ammonia markets.





Farmland and Prairie

Forest

Arctic Tundra

Desert

Mountainous Regions

LAND H

NORTH AMERIC

Areas in which PanCanadiar
December 31, 1976.

LDINGS

and GREENLAND

s oil and gas rights as of

RESERVES (Net After-Royalties)*
(Proven and Probable)

	1976	1975
Marketable Natural Gas (billion cubic feet)		
Remaining Reserves at January 1	**2,384**	2,298
Reserves Added	**224**	165
	2,608	2,463
Production	**85**	79
Royalty Deductions	**157**	—
Remaining Reserves at December 31	**2,366**	2,384
Oil and Natural Gas Liquids (thousand barrels)		
Remaining Reserves at January 1	**185,945**	194,493
Reserves Added	**9,119**	3,697
	195,064	198,190
Production	**11,125**	12,245
Royalty Deductions	**18,088**	—
Remaining Reserves at December 31	**165,851**	185,945
Sulphur (thousand long tons)		
Remaining Reserves at January 1	**4,756**	4,082
Reserves Added (Subtracted)	**(667)**	758
	4,089	4,840
Production	**77**	84
Royalty Deductions	**239**	—
Remaining Reserves at December 31	**3,773**	4,756
Coal (thousand short tons)		
Remaining Reserves at January 1	**485,000**	—
Reserves Added	**375,000**	485,000
Remaining Reserves at December 31	**860,000**	485,000

* Does not include PanCanadian's interest in Panarctic Oils Ltd.

PROVEN AND PROBABLE RESERVES AT DECEMBER 31, 1976*
(Net After - Royalties)

	Proven	Probable	Total
Marketable Natural Gas (billion cubic feet)	**1,945**	**421**	**2,366**
Oil and Natural Gas Liquids (thousand barrels)	**128,420**	**37,431**	**165,851**
Sulphur (thousand long tons)	**2,683**	**1,090**	**3,773**
Coal (thousand short tons)	**622,000**	**238,000**	**860,000**

* Does not include PanCanadian's interest in Panarctic Oils Ltd.

Proven reserves are those reserves of crude oil, natural gas, natural gas liquids and sulphur which analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions.

Probable reserves are those additional reserves estimated to be commercially recoverable from known oil and gas fields, as a result of the effects of the future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Marketable natural gas reserves comprise gases from which certain hydrocarbon and non-hydrocarbon compounds have been removed or partially removed by processing, where necessary to meet pipeline or other market specifications and are measured at a base pressure of 14.65 psia and base temperature of 60°F. This base pressure was adopted as of January 1, 1976 to correspond with the reporting procedure of the Alberta Energy Resources Conservation Board and the gas figures in the above tables have been altered to this standard.

Surface recoverable coal reserves include coal to a maximum strip ratio of 15 cubic yards of overburden to one ton of coal, to a maximum depth of 150 feet.

Coal exploration program at Brooks, Alberta.

Reserves

The Company's year end remaining proven and probable reserves are shown in the accompanying tables. These are net after-royalties figures and have been determined by Company engineers.

Net reserves of proven and probable marketable natural gas were 2,366 billion cubic feet at December 31, 1976 and provide a constant rate reserve life index of 28 years. This is a decline of 18 billion cubic feet from the previous year's total of 2,384 billion cubic feet. Exploration and development drilling, primarily at Redland, Entice, Viking-Kinsella, Princess West and Kessler, together with engineering reviews, added 224 billion cubic feet but this was offset by production of 85 billion cubic feet and a reduction of 157 billion cubic feet resulting from royalty deductions.

At year end, net reserves of proven and probable crude oil and natural gas liquids were 166 million barrels and represent a constant rate reserve life index of 15 years. The reduction of 20 million barrels from the previous year was primarily caused by the loss of 18 million barrels of reserves to Saskatchewan and Alberta in the form of royalties. Fourteen million barrels were lost to the Saskatchewan Government, and four million barrels to the Alberta Government. Production totalled 11 million barrels and was almost replaced by additions of 9 million barrels. Exploration and development drilling, mainly at Viking-Kinsella and Alderson, increased reserves by 2.5 million barrels, a waterflood at Countess added 3.8 million barrels and engineering reviews of various pools provided an additional 2.7 million barrels.

At year end, net proven and probable reserves of sulphur were 3.8 million long tons. This reduction of 1.0 million long tons from 1975 is primarily the result of additional information obtained on the performance of various gas reservoirs and royalty deductions.

Wayne-Dalum compressor station, Alberta.

Geological field party in the Rocky Mountains.

EMPLOYEES

PanCanadian had 662 employees at year end, compared with a total staff of 556 at the end of 1975. This increase was primarily because of the large number of new wells and facilities that came on stream during the year.

Long Service Recognition Awards were made to twenty employees who have been with the Company for more than 10 years. The Company Scholarship Plan provided financial assistance to 28 university students.

FINANCIAL

Net income for the year 1976 rose to $85.0 million or $2.72 a share, compared to $68.7 million or $2.20 a share in 1975, for an increase of 24%. The increase is mainly attributable to price increases for oil, gas and natural gas liquids.

Funds from operations increased to $134.4 million or $4.31 a share in 1976, up 35% from $99.8 million or $3.20 a share in 1975.

Total income from all sources reached a record high of $206.9 million. Operating revenue increased 30% from $156.7 million in 1975 to $203.9 million. Revenue from crude oil increased $4.6 million as a result of higher wellhead prices, which averaged $7.47 a barrel in 1976 compared to $6.36 for the previous year. The higher wellhead prices more than offset the 9.7% decrease in sales volume caused by lower exports to the United States. The $38.9 million increase in revenue from natural gas, which accounted for 82% of the operating revenue increase, was due to higher wellhead prices and an increase in production of 3.6%. The wellhead prices increased from an average of $0.56 a thousand cubic feet in 1975 to $0.99 in 1976. Natural gas liquids revenue from the extraction plant at Empress, increased $3.5 million as a result of higher prices and increased volume.

Total expenses before income taxes rose to $87.1 million from $57.4 million the previous year, an increase of 52%. Operating expenses increased 47% to $36.6 million and administrative expenses by $2.5 million to $7.2 million. The increases resulted from salaries for additional staff, increased maintenance costs, higher cost of gas and processing for the Empress plant, and increased mineral reserve taxes. Interest expense rose $2.5 million due to 1976 long-term borrowings. Depreciation, amortization and depletion increased $12.9 million or 67% because of an $8.0 million amortization of the equipment and

design costs of the Brooks Ammonia Project, and expenditures on exploration and development.

The provision for income taxes increased $1.3 million to $34.8 million for 1976. Current taxes amounted to $17.4 million or 50% of the total provision.

The Company's capital expenditure program, including $2.9 million for Panarctic Oils Ltd., totalled $119.9 million compared to $86.3 million the previous year, a 39% increase. Exploration accounted for $57.0 million of the total expenditure, development drilling $14.9 million and production facilities and equipment $45.1 million.

Additional long-term financing resulted in a significant improvement in working capital. During November a $35.0 million 9¾% Debenture issue on the Euro-Canadian dollar market netted the Company $34.2 million. The issue matures November 15, 1983. Long-term bank loans of $24.0 million were negotiated for the purpose of retiring short-term bank loans. Working capital at December 31, 1976 was $25.3 million.

SOURCES OF REVENUE

	1976 Amount	1976 %	1975 Amount	1975 %	% Increase from 1975
Natural Gas	**$ 84,561,000**	**40.9**	$ 45,711,000	28.6	85.0
Crude Oil	**75,786,000**	**36.6**	71,227,000	44.6	6.4
Empress Plant Natural Gas Liquids Sales	**32,133,000**	**15.5**	28,682,000	18.0	12.0
Natural Gas Liquids	**6,947,000**	**3.4**	6,431,000	4.0	8.0
Sulphur	**911,000**	**.4**	1,104,000	.7	(17.5)
Lease Rentals	**3,595,000**	**1.7**	3,511,000	2.2	2.4
Miscellaneous	**3,008,000**	**1.5**	2,924,000	1.9	2.9
	$206,941,000	**100.0**	$159,590,000	100.0	29.7

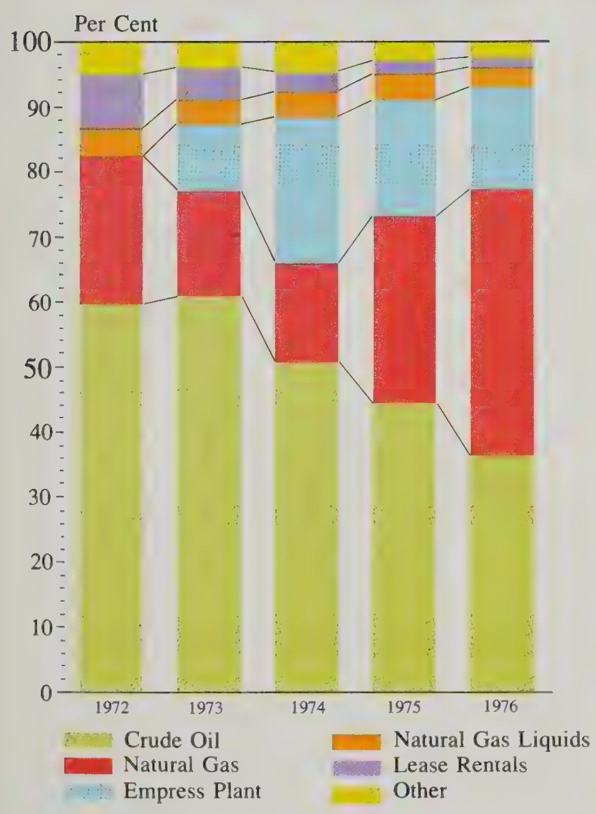
APPLICATION OF WORKING CAPITAL

Exploration and Development	1976	1975
Land Acquisition and Retention	**$ 19,697,000**	$ 7,897,000
Geological, Geophysical and Overhead	**13,503,000**	10,532,000
Exploratory Drilling	**23,832,000**	12,551,000
Total Exploratory	**57,032,000**	30,980,000
Development Drilling	**14,923,000**	13,622,000
	71,955,000	44,602,000
Production Facilities and Equipment	**29,803,000**	16,213,000
Brooks Ammonia Project	**15,278,000**	22,297,000
	117,036,000	83,112,000
Investment in Panarctic Oils Ltd.	**2,876,000**	3,155,000
Reduction of Long-Term Debt	**9,982,000**	8,516,000
Dividends	**27,784,000**	26,847,000
Other	**811,000**	(1,000)
	$158,489,000	$121,629,000

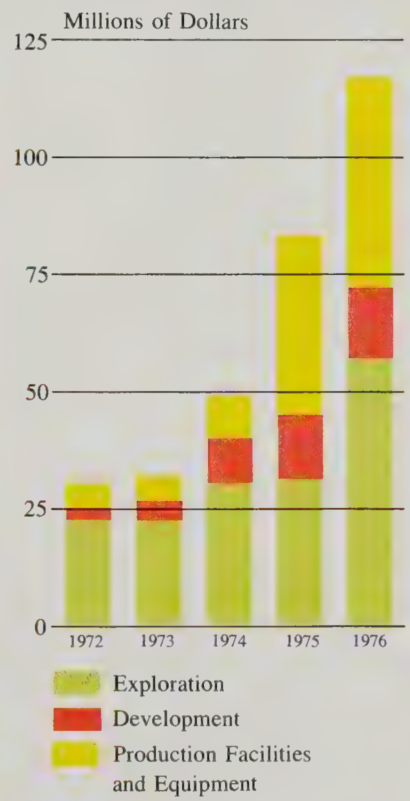
Dividends amounted to $27.8 million or $0.89 a share, compared to $26.8 million or $0.86 a share in 1975.

Semi-annual payments of $0.43 a share and $0.46 a share were made in June and December respectively.

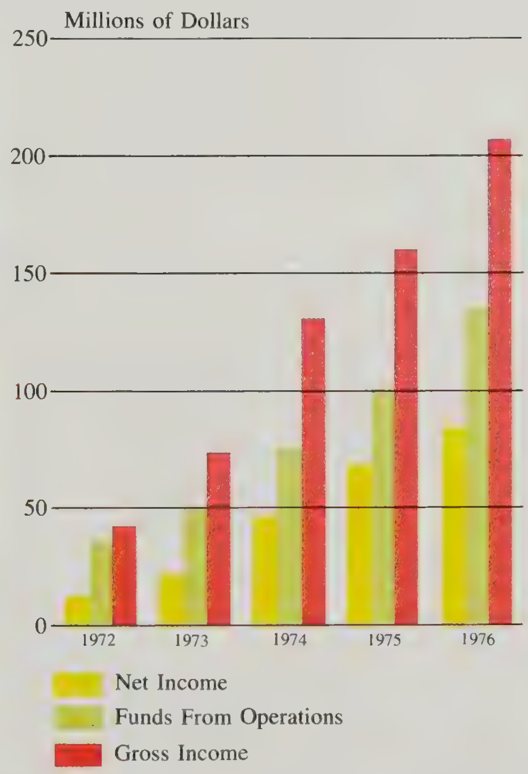
SOURCES OF REVENUE



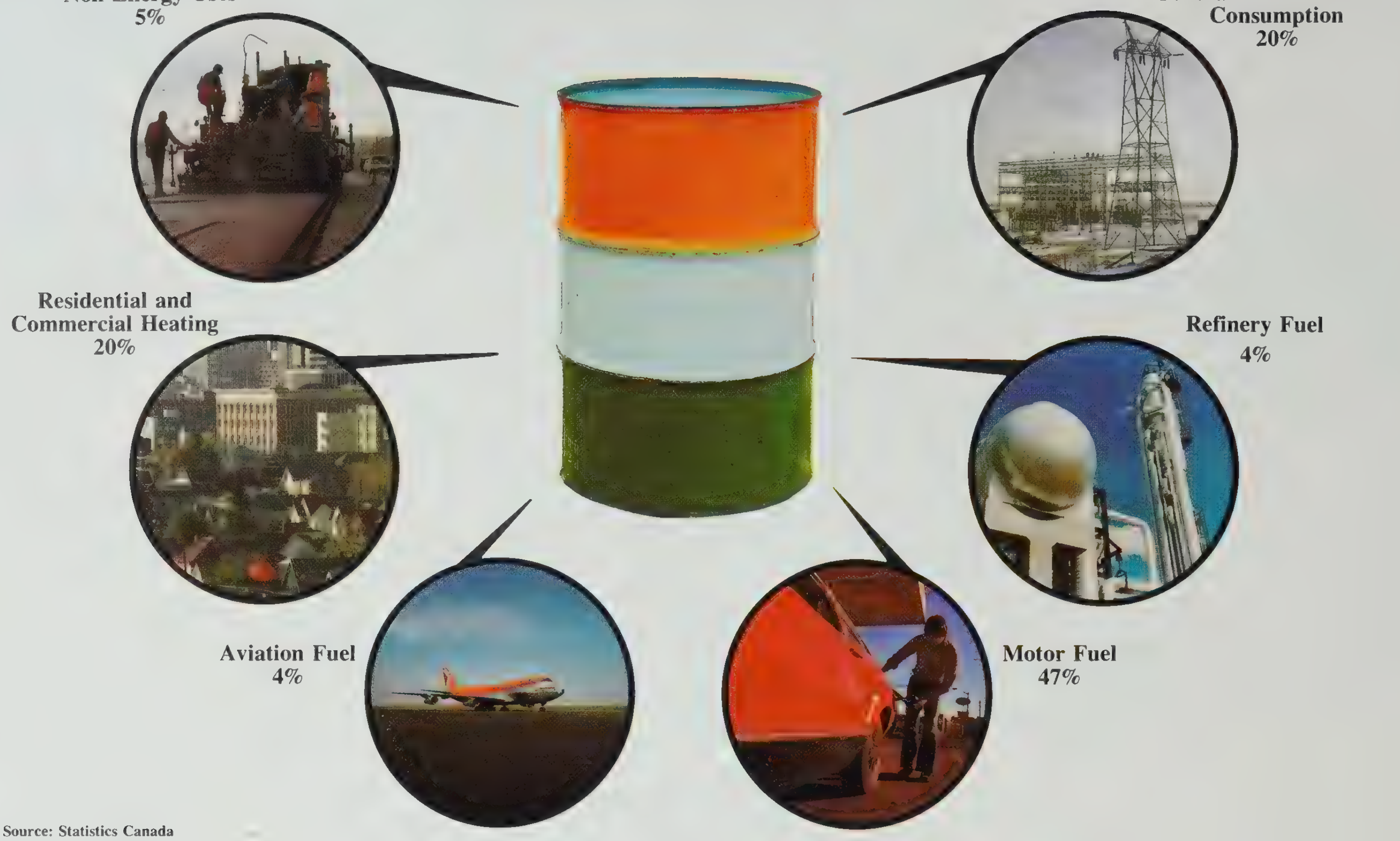
CAPITAL EXPENDITURES



FINANCIAL REVIEW

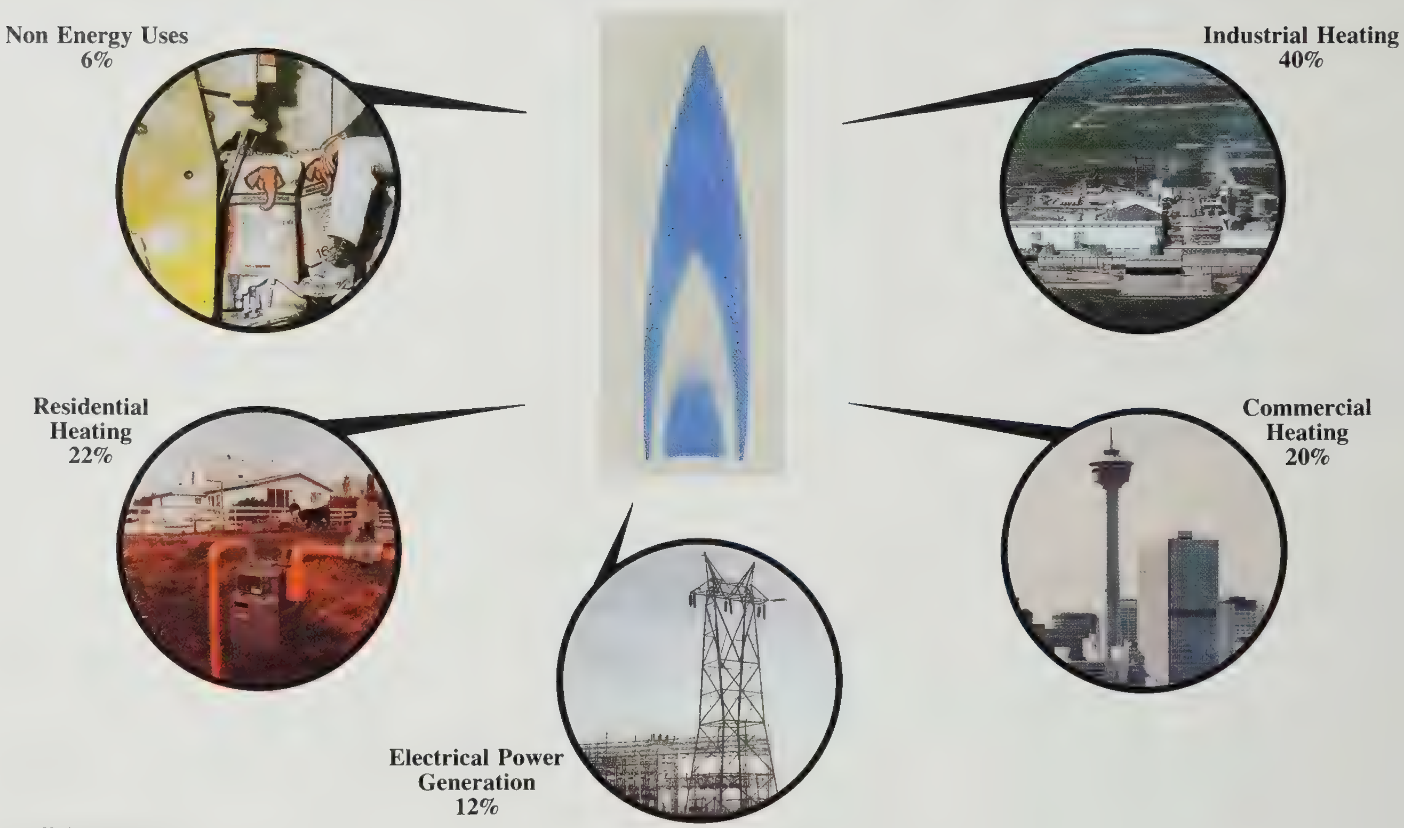


Where the Average Barrel of Oil Refined in Canada is Used



Source: Statistics Canada

The Ultimate Uses of the Natural Gas Consumed in Canada



Source: National Energy Board

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited as at December 31, 1976 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 14, 1977

PRICE WATERHOUSE & CO.
Chartered Accountants.

Consolidated Statement of Income and Retained Income

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
Income:		
Operating revenue	**$203,932,800**	$156,665,770
Interest income from affiliated company (Note 2)	**1,695,120**	2,012,110
Miscellaneous	**1,313,283**	911,910
	206,941,203	159,589,790
Expenses:		
Operating	**36,611,806**	24,831,292
Administrative	**7,246,522**	4,714,435
Interest on long-term debt	**11,244,944**	8,748,091
Depreciation and amortization (Notes 1 and 3)	**15,842,478**	5,714,301
Depletion (Note 1)	**16,141,248**	13,383,957
	87,086,998	57,392,076
Income before income taxes	**119,854,205**	102,197,714
Provision for income taxes (Note 1):		
Current	**17,400,541**	21,549,355
Deferred	**17,420,609**	11,985,394
	34,821,150	33,534,749
Net income for the year	**85,033,055**	68,662,965
Retained income at beginning of year	**103,317,249**	61,500,822
	188,350,304	130,163,787
Dividends — 89¢ per share (1975 — 86¢) (Note 6)	**27,784,157**	26,846,538
Retained income at end of year	**$160,566,147**	$103,317,249
Earnings per share	**$2.72**	$2.20

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
Source of working capital:		
Net income for the year	**$ 85,033,055**	$ 68,662,965
Expenses not requiring a current outlay of funds —		
Depreciation and amortization	**15,842,478**	5,714,301
Depletion	**16,141,248**	13,383,957
Deferred income taxes	**17,420,609**	11,985,394
Other	**3,309**	9,554
Funds from operations	**134,440,699**	99,756,171
Issue of debentures	**35,000,000**	—
Long-term bank loans	**24,000,000**	—
Dividend from other investment	**—**	500,000
	193,440,699	100,256,171
Application of working capital:		
Petroleum, natural gas and mineral properties	**71,955,265**	44,601,939
Plant, production and other equipment	**45,080,532**	38,510,015
	117,035,797	83,111,954
Investment in Panarctic Oils Ltd.	**2,876,312**	3,155,289
Reduction of long-term debt	**9,981,666**	8,516,667
Dividends	**27,784,157**	26,846,538
Debenture issue expenses and premium — net	**764,477**	—
Other	**46,175**	(1,038)
	158,488,584	121,629,410
Increase (decrease) in working capital	**34,952,115**	(21,373,239)
Working capital (deficiency) at beginning of year	**(9,624,915)**	11,748,324
Working capital (deficiency) at end of year	**$ 25,327,200**	$ (9,624,915)

Consolidated Balance Sheet — December 31, 1976

ASSETS

	1976	1975
Current assets:		
Cash	**$ 2,692,000**	$ 962,271
Deposits with affiliated company (Note 2)	**33,223,816**	18,096,761
Accounts receivable	**42,827,732**	32,866,697
Inventories, at average cost —		
Products	**6,686,530**	3,371,077
Materials	**4,897,630**	3,075,474
	90,327,708	58,372,280
Property, plant and equipment, at cost (Notes 1 and 3):		
Petroleum, natural gas and mineral properties	**437,015,423**	365,047,657
Less: Accumulated depletion	**(118,387,278)**	(102,233,529)
Plant, production and other equipment	**161,323,994**	116,226,537
Less: Accumulated depreciation and amortization	**(51,625,341)**	(36,083,432)
	428,326,798	342,957,233
Investments, at cost:		
Panarctic Oils Ltd.	**16,177,713**	13,301,401
Other	**524,294**	447,537
	16,702,007	13,748,938
Other assets:		
Drilling, reservation and other deposits	**111,700**	105,047
Unamortized debenture discount and issue expenses (Note 1)	**1,694,617**	1,004,829
Unamortized gas processing contracts (Note 1)	**10,819,732**	11,137,226
	12,626,049	12,247,102
	$547,982,562	$427,325,553

LIABILITIES

	1976	1975
Current liabilities:		
Bank loans, unsecured	$ —	$ 14,000,000
Accounts payable and accrued liabilities	**54,129,350**	42,527,082
Income taxes payable	**889,492**	2,953,446
Current portion of long-term debt	**9,981,666**	8,516,667
	65,000,508	67,997,195
Long-term debt (Note 4)	**130,447,500**	81,429,166
Deferred credits:		
Deferred rentals	**464,271**	498,416
Deferred income taxes (Note 1)	**118,722,885**	101,302,276
	119,187,156	101,800,692
Shareholders' equity:		
Capital stock —		
Authorized —		
50,000,000 shares of $1 par value		
Issued —		
31,219,534 shares	**31,219,534**	31,219,534
Paid in surplus	**41,561,717**	41,561,717
Retained income (Note 6)	**160,566,147**	103,317,249
	233,347,398	176,098,500
	$547,982,562	$427,325,553

APPROVED BY THE BOARD:

Director Robert W. Campbell

Director J M Taylor

Notes to Consolidated Financial Statements
DECEMBER 31, 1976

NOTE 1 — ACCOUNTING POLICIES:

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange December 31, 1976

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of plant, production and other equipment is being provided on the diminishing balance method at rates varying from 5% to 20% which will amortize original costs over the estimated useful lives of the respective assets except for depreciation on the gas processing plant which is provided on the straight-line basis at 4% per annum.

Unamortized debenture discount and issue expenses are being charged to income on a straight-line basis over the terms of the debenture issues.

Unamortized gas processing contracts are being charged to income on a straight-line basis over the life of the contracts which is forty years.

The Company follows the allocation method of accounting for income taxes.

NOTE 2 — DEPOSITS WITH AFFILIATED COMPANY:

Substantially all of the Company's funds which were surplus to its day to day requirements were invested in deposits of Canadian Pacific Limited. These deposits carry interest at rates at least equal to the interest rates paid from time to time by a leading Canadian Chartered bank on equivalent deposits.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT:

As at December 31, 1976 the Company had incurred costs of $42,000,000 on equipment and design with respect to an ammonia plant. Due to adverse conditions which developed in 1976 with respect to the sale in the United States of the production from this plant, the management of the Company decided to defer on-site construction of this plant for which there are no outstanding contractual obligations to complete. In 1976 the Company amortized these costs to the extent of $8,000,000. If the ammonia market in the United States does not improve, these assets may be disposed of. In the opinion of the management of the Company, such disposition would not result in any significant loss.

NOTE 4 — LONG-TERM DEBT:

Details of long-term debt outstanding at December 31, 1976 and at December 31, 1975 are set forth hereunder:

	1976	1975
Bank loans due 1977 - 1983	**$ 55,429,166**	$39,945,833
Less: Current portion	**9,981,666**	8,516,667
	45,447,500	31,429,166
$8^1/_8$% secured debentures due March 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	**25,000,000**	25,000,000
$8^3/_4$% secured debentures due November 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	**25,000,000**	25,000,000
$9^3/_4$% unsecured debentures due November 15, 1983	**35,000,000**	—
	$130,447,500	$81,429,166

The bank loans bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

The Company has agreed that, without the consent of the bankers, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

With regard to the $35,000,000 9¾% unsecured debentures, the Company has agreed that it and its subsidiaries will not create any mortgages or other charge on their assets to secure a loan or other indebtedness in the form of bonds or other indebtedness which at the time of issue are intended to be traded on any stock exchange or publicly traded in the over-the-counter market in any part of the world unless the debentures then outstanding are similarly secured.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

1977 — $ 9,981,666
1978 — $10,815,000
1979 — $ 7,777,500
1980 — $ 7,465,000
1981 — $ 7,965,000

NOTE 5 — STATUTORY INFORMATION:

During 1976 there were twelve directors and ten officers (as defined by the Canada Corporation Act) of whom three were also directors.

Officers' remuneration and directors' fees for 1976 amounted to $422,632 and $38,250 respectively (1975 — $373,580 and $40,500) none of which was paid by subsidiaries.

NOTE 6 — ANTI-INFLATION PROGRAM:

Effective October 14, 1975 the Canadian Government enacted anti-inflation legislation providing for the establishment of controls on prices, profit margins, compensation and dividends.

The controls on prices and profit margins do not apply to crude oil, natural gas and certain related products. Such controls have not had any significant effect on the Company's operations to date.

Five Year Statistical Review

	1976	1975	1974	1973	1972
EARNINGS					
Gross Income	**$206,941,000**	$159,590,000	$130,572,000	$ 75,374,000	$ 47,271,000
Funds from Operations	**134,441,000**	99,756,000	74,557,000	49,872,000	34,965,000
Per Share	**4.31**	3.20	2.39	1.60	1.12
Net Income	**85,033,000**	68,663,000	46,243,000	21,300,000	12,544,000
Per Share	**2.72**	2.20	1.48	0.68	0.40
BALANCE SHEET					
Working Capital (Deficiency)	**$ 25,327,000**	$ (9,625,000)	$ 11,748,000	$ 10,900,000	$ 29,896,000
Property, Plant & Equipment — Net	**428,327,000**	342,957,000	278,626,000	249,356,000	203,112,000
Investments & Other Assets	**29,328,000**	25,996,000	23,696,000	22,242,000	9,058,000
Long-Term Debt	**130,448,000**	81,429,000	89,946,000	93,468,000	71,979,000
Deferred Income Taxes	**118,723,000**	101,302,000	89,317,000	81,367,000	71,086,000
CAPITAL EXPENDITURES					
Exploration	**$ 57,032,000**	$ 30,980,000	$ 30,285,000	$ 22,934,000	$ 22,756,000
Development	**14,923,000**	13,622,000	9,675,000	4,385,000	1,985,000
Production Facilities & Equipment	**45,081,000**	38,510,000	9,356,000	4,695,000	5,597,000
Investment in Panarctic Oils Ltd.	**2,876,000**	3,155,000	1,764,000	1,705,000	1,812,000
PROVEN & PROBABLE RESERVES (NET AFTER-ROYALTIES)					
Natural Gas (million cubic feet)	**2,366,000**	2,384,000	2,298,000	2,225,000	1,627,000
Crude Oil & Natural Gas Liquids (barrels)	**165,851,000**	185,945,000	194,493,000	206,755,000	215,947,000
Sulphur (thousand long tons)	**3,773**	4,756	4,076	3,573	3,871
Coal (thousand short tons)	**860,000**	485,000	—	—	—
PRODUCTION (NET AFTER-ROYALTIES)					
Natural Gas Sales (million cubic feet)	**84,799**	81,622	82,594	76,727	73,025
Crude Oil & Natural Gas Liquids Production (thousand barrels)	**11,125**	12,245	14,334	15,885	12,442
Empress Plant Natural Gas Liquids Sales (thousand barrels)	**3,653**	3,417	4,372	2,579	—
Sulphur Sales (long tons)	**52,306**	50,392	79,561	79,908	56,188
ACREAGE					
Gross (acres)	**30,256,000**	31,793,000	39,686,000	45,671,000	20,037,000
Net (acres)	**13,059,000**	15,311,000	16,426,000	19,705,000	14,798,000
SHARES & DIVIDENDS					
Number of Shares Outstanding	**31,219,534**	31,219,534	31,219,534	31,214,990	31,205,985
Number of Shareholders	**5,905**	7,170	7,492	7,840	7,881
Dividends	**$ 27,784,000**	$ 26,847,000	$ 19,355,000	$ 12,795,000	$ 9,982,000
Per Share	**0.89**	0.86	0.62	0.41	0.32
Market Price Per Share — High	**25¾**	17¼	14	18½	17⅜
— Low	**15⅞**	7⅝	7⅛	11⅜	13

Valuation Day (December 22, 1971) Share Price $15¼

Subsidiary and Affiliate Companies

Wholly Owned

Blackfoot Pipelines Ltd.
Canadian Pacific Oil and Gas of Canada Limited
Canadian Pacific Oil and Gas Nederland BV.
Canadian Pacific Oil and Gas Norway A/S
PanCanadian Gas Products Ltd.
PanCanadian Petroleum Company
PanCanadian Petroleum (U.K.) Limited
Canadian Persian Oil Limited
PanCanadian Kerrobert Pipeline Ltd.
PanCanadian Petroleum Denmark A/S

Other

Minerals Ltd. — 50%
Panarctic Oils Ltd. — 9.13%
Stillings Petroleum (Canada) Ltd. — 50%
Stillings International Company — 50%

Branch Offices

London, England
Houston, Texas
Denver, Colorado

SHARES LISTED

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada —
Calgary, Montreal, Toronto, Vancouver

BANKER

The Royal Bank of Canada

AUDITORS

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

PanCanadian Petroleum Limited publishes a supplementary report entitled ''Financial and Operating Information''. The report contains more detailed information than is possible to include in the Annual Report, and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Supervisor — Budgetary Control & Statistics.

PanCanadian Petroleum Limited
P. O. Box 2850 Calgary, Alberta, Canada T2P 2S5

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PanCanadian

INTERIM REPORT

For the Six Months Ended
June 30, 1976

PanCanadian Petroleum Limited
P.O. Box 2850
Calgary, Alberta
T2P 2S5

TO THE SHAREHOLDERS:

FIRST HALF COMPARATIVE HIGHLIGHTS

	1976	1975
FINANCIAL (thousands of dollars)		
Gross revenue	$95,654	$72,246
Funds from operations	62,723	41,255
Per share	2.01	1.32
Net income	42,650	28,059
Per share	1.37	0.90
Capital expenditures	53,435	26,727
PRODUCTION AND SALES (net daily average)		
Oil and natural gas liquids — bbls.	38,812	42,995
Natural gas — MMcf.	229	229

During the first half of 1976, PanCanadian drilled or participated in the drilling of 390 wells, of which 110 were exploratory and 280 were development wells. Exploratory drilling resulted in 67 gas and two oil wells and the development program yielded 208 gas, 41 oil and 18 facility wells.

The deep foothills of Western Alberta continue to be an active area of exploration, and significant land holdings were recently acquired in the Muskiki and Gold Creek areas. The Findley appraisal well, PCP et al Findley 16-23-57-6 W6, was drilled to total depth and in addition to the zones proven to be gas bearing in the discovery well, drillstem tests of the Nikanassin, Cadomin and Dunvegan formations have produced gas. Completion of the well is to commence immediately. In the Morley area west of Calgary, a deep test was suspended due to mechanical difficulties. Drilling is scheduled for three other foothills areas during the third quarter. In addition to this activity, an extensive exploration and development program continues in the plains area of Southern Alberta. PanCanadian, as a member of the Delta 5 Group, is also participating in a second exploratory well in the Mackenzie Delta.

In the United States, the initial wildcat on Block 1154, Offshore Texas is currently drilling. At PCP Fuller Reservoir II Unit #22-25 in Wyoming, casing was set to 16,859 feet and indicated gas-bearing zones are being tested and evaluated.

With the successful Panarctic Bent Horn A-02 oil well, Panarctic Oils Ltd. has three oil wells in the Bent Horn Field on Cameron Island capable of production. The well, a stepout from F-72A, flowed 2,880 barrels a day of light gravity oil during a drillstem test of the top portion of the pay zone at about 9,050 feet, 1,200 feet higher than the F-72A well producing zone. Production tests will follow.

During the second quarter, PanCanadian tied in gas wells in five areas in Alberta with net daily average production capability of 10.4 million cubic feet. In British Columbia, the first well of a four well development program in the Helmet area was put on stream with a net Company production of one million cubic feet of gas a day.

PanCanadian is pleased to announce the following appointment and changes in Executive Officers' responsibilities. Mr. Bartlett B. Rombough, who has been active in the Canadian oil and gas industry since 1952, has been appointed Executive Vice President of the Company. M.A. Rogers, formerly Vice President-Exploration, has been appointed Senior Vice President-Operations; and C.H. Stevens, formerly Vice President and Comptroller, has been appointed Senior Vice President-Administration.

Robert W. Campbell — J.M. Taylor

Robert W. Campbell
Chairman of the Board and
Chief Executive Officer

J.M. Taylor
President

Calgary, Alberta
July 30, 1976

PanCanadian Petroleum Limited
and Subsidiaries

CONSOLIDATED FINANCIAL SUMMARY
(thousands of dollars)

	June 30 1976	June 30 1975
Balance Sheet		
Current assets	$ 60,380	$ 33,933
Current liabilities	72,584	24,449
Working capital (deficiency)	(12,204)	9,484
Property, equipment and other assets	413,006	319,366
	400,802	328,850
Long term debt	83,388	86,487
Deferred credits	112,089	93,445
Shareholders' equity	$ 205,325	$ 148,918
Shares outstanding	31,219,534	31,219,534

	For the Six Months Ended June 30 1976	For the Six Months Ended June 30 1975
Changes in Financial Position		
Source of working capital:		
Funds from operations	$ 62,723	$ 41,255
Long term debt	5,000	—
Other	—	500
	67,723	41,755
Application of working capital:		
Capital expenditures — net	53,435	26,727
Reduction of long term debt	3,042	3,458
Dividends	13,423	13,423
Other	402	411
	70,302	44,019
Increase (decrease) in working capital	$ (2,579)	$ (2,264)
Statement of Income		
Gross revenue	$ 95,654	$ 72,246
Operating and administrative expenses	19,419	15,572
Interest expense	5,036	4,499
Depreciation and depletion expenses	9,424	9,172
	33,879	29,243
Income before income taxes	61,775	43,003
Provision for income taxes	19,125	14,944
Net income	$ 42,650	$ 28,059
Per share	$1.37	$0.90

CONSOLIDATED OPERATING SUMMARY

	1976	1975
Production and sales — net daily average		
Oil — bbls.	24,762	30,239
Natural gas liquids — bbls.	2,870	3,144
Natural gas liquids — Empress Plant — bbls.	11,180	9,612
	38,812	42,995
Natural gas — MMcf.	229	229

"Unaudited"

PanCanadian Petroleum Limited